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PRELIMINARY ANALYSIS

of

JARVIS/GANN INITIATIVE

An Information Report To The

Tulare County

Board of Supervisors

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## I. INTRODUCTION

In early December 1977, the "Peoples Petition to Control Taxation" was filed with Registrars of Voters and County Clerks throughout California for verification of signatures in order to qualify for the June, 1978 primary election ballot. On December 23, 1977, the California Secretary of State announced that the petition, more commonly known as the Jarvis/Gann Initiative, had qualified with in excess of 1.2 million signatures - more than twice the number required.

This report, as requested by the Tulare County Board of Supervisors, is a preliminary analysis of the Initiative's potential fiscal impact on local governments in Tulare County. A second report, to be presented in the future will examine the impact of the Initiative on specific services provided by property tax supported local program.

In addition to estimating the Initiative's fiscal impact, this report discusses questions raised by provisions of the Initiative and identifies additional issues raised by the Initiative. The interpretations are based on currently available information, and are subject to refinement after further analysis.

### Summary of Initiative

The Jarvis/Gann Initiative would add Article XIII-a to the California Constitution containing the following provisions:

- . Limits ad valorem property taxes of all real property to one percent (1%) of the full cash value of the property.
- . Exempts existing voter approved bonded indebtedness from the 1% limitation.
- . Defines "full cash value" as the Assessor's appraised value of real property as of March 1, 1975, adjusted by changes in the Consumer Price Index - not to exceed 2% per year.
- . Permits establishment of a new "full cash value" when there is new construction or a change in ownership.
- . Permits the reassessment, up to the March 1, 1975 value, of property which was not current on the 1975-76 assessment roll.
- . Requires counties to collect the 1% property tax and to "apportion it according to law to the districts within the counties."
- . Prohibits new ad valorem taxes on real property, or sales taxes, or transaction taxes, on the sales of real property.
- . Permits the imposition of special taxes by local agencies, other than those prohibited, by a two-thirds (2/3) vote of the "qualified electors" of such agencies.





- . Requires a two-thirds (2/3) vote of all members of both houses of the Legislature for any changes in State taxes which would result in increased revenues.

#### Timing of Jarvis/Gann Implementation

If the Jarvis/Gann Initiative is approved by a simple majority of the voters on June 6, the provisions relating to the maximum property tax limitation will go into effect on July 1, 1978 - twenty-five days later. The provisions relating to the 2/3 vote requirement for the Legislature to enact increased State taxes will become effective immediately upon passage.





## II. PROPERTY TAXES IN CALIFORNIA

### History of Property Tax Initiatives

In 1968, an initiative developed by Los Angeles Assessor Philip Watson proposing a 1% limit was placed on the November ballot as Proposition 9. It was defeated by the voters by a vote of 2,146,010 Yes to 4,570,097 No (32% - 68%). The measure was revised and placed before the voters as Proposition 13 in November 1972. The second "Watson Initiative" proposed a series of tax rate limits for the various units of local government - which in the aggregate amounted to a limit of between 1.75% and 2%. Again the initiative was defeated, by a vote of 2,700,095 Yes to 5,213,485 No (34.1% - 65.9%). Subsequent to the second initiative, the Legislature acted to impose separate rate limits in cities, counties, and districts, and a revenue limit on schools in SB90 of 1972. Since the passage of these tax rate limits, average property tax rates have declined.

Despite the tax rate limitations imposed by SB90 of 1972, however, property tax revenues throughout the State have increased. This has been due in part to the effect of inflation on local governments, in part to the mandates by State and Federal Governments for new and more costly programs, and in part to the phenomenal growth in the market value of housing in California.

### Current Reliance on Property Taxes

The State Board of Equalization estimates that property taxes in California will exceed \$10 billion in 1977-78; property tax revenues increased 12.9% in 1976-77 over the previous year.

These revenues finance public schools, cities, counties, and special districts. These organizations vary in their reliance on property taxes depending on the provisions of State law which govern their finances. For example, school districts which account for 50 - 60% of the property taxes collected in the State, are financed under provisions of the Education Code which specify certain calculations to arrive at the funding level per unit of average daily attendance (ADA). The State law further prescribes how much of this level will be provided by State financing and how much will be required from local property tax collections. There are also a few programs financed by property taxes that are at the option of local school districts, but these represent a very small proportion of overall school finance.

In contrast, certain types of special districts have legislative authorization to levy service charges sufficient to cover the cost of operations. These districts may levy property taxes, but in many instances do so only to cover the cost of voted bond indebtedness.

Other types of special districts, such as fire protection districts, are totally reliant on the property tax for their financing.


Municipal and County reliance on the property tax varies widely around the State. For cities, the two major sources of financing are the retail sales tax and the property tax. Cities also receive revenue from charges for certain services and from Federal and State grants, including revenue sharing.





Further, charter cities are authorized to levy certain special taxes, such as the business license tax, to provide additional revenue.

Counties rely on property taxes to finance approximately 25% of their operations. Counties receive the largest share of their revenue from Federal and State subventions and grants. Additional major sources of revenue are charges for services and sales taxes from retail sales in the unincorporated areas. Appendix A describes the present method for determining property taxes.



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### III. POTENTIAL FISCAL IMPACT ON LOCAL GOVERNMENTS IN TULARE COUNTY

#### Current Property Tax Reliance

In Fiscal Year 1977-78, there are 156 separate agencies in Tulare County authorized to levy taxes on the value of real property. Since each taxing agency determines its own property tax requirements and levies a separate rate (see Appendix A), tax rates in Tulare County vary widely (see Appendix B). For the 1977-78 Fiscal Year, there are 142 separate secured tax rates levied in the County because not all special districts authorized a levy.

The 156 taxing agencies within the County in 1977-78 include:

1	County
8	Cities
65	School Districts
82	Special Districts

Of the 82 non-school special districts, three are governed by the Board of Supervisors and the remainder by independent local boards of directors.

The 1977-78 Tulare County's total taxable assessed value on the secured property tax roll is \$671,848,696. This translates into a market value of \$2,687,394,700. On this base is collected \$74,670,713 in secured property taxes for all taxing agencies in the County. These taxes, which include requirements for debt service, represent an aggregate of 2.8% of the market value of taxable property in the County. (Of course, the percentage of market value varies among tax code areas.) For purposes of comparison, a \$4.00 tax rate is the equivalent of 1% of market value. Therefore, 2.8% translates to a tax rate of \$11.200\*.

The total secured property taxes to be collected in the County in 1977-78 by type of agency is as follows:

<u>Type of Agency</u>	<u>Amount of Collected Secured Property Taxes</u>	<u>% of Total</u>
County	\$24,098,184	32.27
Cities	3,477,049	4.66
Schools	42,142,183	56.44
Special Districts	<u>4,953,297</u>	<u>6.63</u>
Total	\$74,670,713	100.00

\*According to the Auditor and Controller the average tax rate in the County this year is \$11.000.





When the property taxes collected for payment of voter-approved bond indebtedness are deducted from this, the remaining secured tax collections that would be subject to the limitation contained in Jarvis/Gann are as follows:

<u>Type of Agency</u>	<u>Amount of Collected Secured Property Taxes</u>	<u>% of Total</u>
County	\$24,098,184	32.75
Cities	3,458,599	4.70
Schools	41,173,704	55.95
Special Districts	<u>4,850,809</u>	<u>6.60</u>
Total	\$73,581,296	100.00

#### Reduction in Property Taxes

The Jarvis/Gann Initiative would limit the taxing of real property to 1% of 1975-76 market value as determined by the Assessor. It allows for the re-assessment of the property to the then current market value when there is new construction or the property changes ownership. The Assessor has calculated that the adjusted value of the 1975-76 roll, allowing for the 2% annual increase in all other properties, would be \$661.6 million, or 98.5% of the 1977-78 secured assessment roll. Calculating maximum allowed taxes of 1% on this base results in estimated total allowable tax revenues in 1977-78 under the Jarvis/Gann Initiative of \$26.46 million. If these revenues were to be distributed proportionately among taxing agencies, the table below shows the amount of taxes and the loss from the actual amounts in 1977-78:

#### 1977-78 PROPERTY TAX REVENUES

<u>Type of Agency</u>	<u>1977-78 Collections</u>	<u>Jarvis/Gann Limit</u>	<u>Loss</u>	<u>% Loss</u>
County	\$24,098,184	8,666,892	15,431,292	64.04
Cities	3,458,599	1,243,798	2,214,801	64.04
Schools	41,173,704	14,806,489	26,367,215	64.04
Special Districts	<u>4,850,809</u>	<u>1,746,610</u>	<u>3,104,199</u>	<u>63.99</u>
Total	\$74,581,296	\$26,463,789	\$47,117,507	63.18

The preceding distribution assumes that legislation would be enacted to distribute the tax loss proportionately. One possible legislative alternative is to totally remove school finance from property taxation. If such were the case, the one percent property tax limit would initially allow the continuation of property tax financing for all other local taxing agencies at approximately 87% of the present level. The 2% limit on tax increases will further compound this problem in the future.





## Role of Property Tax in County Financing

Secured property taxes finance approximately 26% of the County government's budget, with nearly 59% of the balance coming from state and federal subventions and the balance from miscellaneous taxes, fees, fines, and charges for services. The property tax revenues are combined with other general revenues and used to fund the "net county cost" portion of County programs. This "net County cost" for General Fund programs for 1977-78 fiscal year is approximately \$34,440,421 and, by percentage, is distributed as follows:

<u>Function</u>	<u>% Net County Cost</u>
General Government	13.15
Public Protection (1)	38.93
Public Health	10.91
Public Assistance	31.68
Community Services, Recreation, Education (2)	2.43
Reserve for Contingencies	<u>2.90</u>
Total	100.00%

(1) Does not include Fire Protection which is funded by property tax, federal revenue sharing, and "assigned" revenues.

(2) Does not include Library Service which is funded by property tax.

Assuming that property taxes make up a proportionate share of all net County costs, then the taxes collected in 1977-78 would be distributed as follows:

<u>Function</u>	<u>Amount Of Property Tax</u>
General Government	\$2,921,379
Public Protection (1)	8,648,614
Health	2,423,745
Public Assistance	7,037,969
Community Services, Recreation, Education (2)	539,844
Reserve for Contingencies	<u>644,258</u>
	\$22,215,809

(1) Fire Fund receives \$814,000 of property tax revenue in addition.

(2) Library receives \$1,068,375 of property tax revenue in addition.

## Impact of Jarvis/Gann on County Finances

Considering that Jarvis/Gann would reduce County property tax revenues by approximately 64% the figures shown above would have to be reduced proportionately. However, this could not be achieved because of state and federal program mandates. Thus, the greatest impact would occur in areas where the County has discretion on the level of funding that can be provided, such as law enforcement, fire protection, recreation and library services. To achieve the necessary reductions within the restrictions of mandated programs would probably require elimination of several programs and severe curtailment of all other non-mandated activities.



#### IV. ANALYSIS OF INITIATIVE PROVISIONS

This Section reviews some of the questions raised by provisions of the Jarvis/Gann Initiative.\*

##### One Percent Limitation

Does the one percent limitation apply to the unsecured tax roll as well as the secured tax roll? The initiative as worded applies to "real property". Most of the assessed value on the unsecured roll is not real property. However, under existing law the tax rate on unsecured property is the rate applied to secured property in the previous year. If this law remains in effect after the passage of Jarvis/Gann, the unsecured rate would apparently be lowered to the \$4.00 level in 1979-80 which would result in an additional revenue loss of \$1.2 Million in 1979-80.

Does the one percent limitation apply to personal property? As noted in Section II, the secured property tax roll includes both real and personal property. Under present laws, the same tax rate is applied to all property on the secured roll. If there is no change in the law, personal property would be subjected to the same 1% limitation. However, a separate procedure could be enacted to tax personal property at a separate rate.

Does the 1% limitation apply before or after the existing home-owners exemption is taken? Cal-Tax points out that determination of this question could make a significant difference in tax burden, particularly for a modest home. They cite as an example that a tax of 1% on a \$15,000 home would yield \$150.00. However, if the tax applies only after the \$7,000 homeowners exemption, the tax would be reduced to \$80.00 on the remaining \$8,000 value. The answer to this question will depend on judicial interpretation or legislative action.

How would the County apportion revenue? The initiative reads: "The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties." This provision raises two questions: does use of the word "districts" infer that the counties and cities would not be eligible to receive property tax revenue? What is the law according to which the revenues would be distributed? Neither of these questions can be answered at this time. There are no statutory provisions for the distribution of property tax revenue by the County, except those noted in Appendix A wherein the Auditor and Controller distributes according to the amount of property tax revenue determined by each local board.

While existing bonded indebtedness is exempt, would future bonds be permitted? No, at least not as they have existed in the past. Since the initiative prohibits any further taxes on real property, a new method of funding bonds, such as a special sales tax, would need to be devised. Once a method is developed, it would be necessary to secure approval of 2/3 of the "qualified voters". Except in extreme cases this approval will be highly unlikely.

\*This analysis draws upon analyses conducted by staff to the Assembly Revenue and Taxation Committee, Senate Office of Research, California Taxpayers' Association (Cal-Tax), and Orange, San Diego, and Los Angeles Counties.





What effect will the 1% limitation have on redevelopment agencies and joint power authorities? Under present State law, community redevelopment agencies are authorized to issue revenue bonds which are secured by increases in tax revenues resulting from increased assessed value within the redevelopment agency. This method, known as tax increment financing, need not be approved by the voters in advance. It can be assumed, then, that such bonds are not excluded from the 1% limitation and would be subject to reduced revenues in proportion to other property tax revenue reductions within the County.

The same question arises with respect to revenue bonds issued by joint powers authorities which are secured by a lease agreement by one or more of the signators to the authority.

#### Definition of Full Cash Value

How much of the present market value would be reduced to reflect the 1975-76 value? As noted in the earlier discussion of fiscal impact, the market value as reflected on the 1977-78 secured roll may be reduced only minimally if agriculture preserves are eliminated. Since assumptions concerning new construction and change of ownership were used in that analysis, the actual reduction in the roll may be even greater when the Assessor goes back and adjusts the roll for each parcel in accordance with the Initiative.

How will Agricultural Preserves be Affected? Since the tax on property within agricultural preserves is based upon its agricultural value rather than its "full cash value", the Initiative may increase taxation on agricultural property! The Assessor estimates the increase in value will add \$80,000,000 to the total assessed valuation and will increase taxes paid by the Agricultural interests by approximately \$800,000 annually.

What will be defined as "newly constructed" property? It is not clear whether the entire property would be revalued when an addition is made, or whether the assessment rolls would have to maintain the separate valuations of all improvements as they are added.

How will the 2% limitation on annual assessment increases affect declining neighborhoods? Since the Initiative provides for changes in the consumer price index not to exceed 2% as the only means of changing market value of properties which do not change ownership, it would appear that properties whose actual market value remains constant or decreases might be taxed at a value greater than market value.

Will the re-assessment due to change in ownership cause a shift of tax burdens to homeowners? Probably, because residential property changes ownership at a much greater rate than commercial and industrial.

According to Cal-Tax, residential property changes ownership on the average of once every seven years. When compounded by the present market forces which force home prices to rise faster than other values, this will cause a greater shift of tax burden to residential property.





## Special Local Taxes

Does the requirement for a 2/3 vote of the "qualified electors" effectively eliminate any locally levied replacement revenues? Most likely yes. The Initiative does not define qualified electors. It would appear to mean registered voters. As noted earlier, except under extreme cases, it would appear unlikely that 67% of all registered voters would authorize any new local taxes.

Who Will Benefit? Since Jarvis/Gann is intended to limit the property tax on all real property, all property owners stand to benefit. However, the major benefits will accrue to business, corporations, land speculators and investors as they account for approximately 60% of the recorded properties. In Tulare County 23 corporations represent 13% of the total assessed value and 14% of the total property tax revenue.



## V. INDIRECT EFFECTS

This Section notes some of the possible indirect effects which might result from the enactment of the Jarvis/Gann Initiative. Others may be identified as more analyses are done on the effect of the Initiative throughout the State.

### Revenue Sharing, and Matching Funds and CETA

The formula used by the Federal Government to allocate general revenue sharing to states and general purpose local governments within states includes relative tax effort. Relative tax effort is the degree of reliance of a government on its own tax sources compared with other governments. Since Jarvis/Gann will result in a much lower relative tax effort, there will be a reduction in general revenue sharing allocations, first to California, and then to its cities and counties. It is not possible to predict this loss with any degree of accuracy due to the complex allocation formula; but Los Angeles County who has explored this in some depth believes the loss will approximate 10%. In Tulare County this approaches \$600,000.

The County already has a \$5,032,512 dependency on revenue sharing which has been appropriated to avoid higher property taxes. This together with our anticipated Revenue Sharing loss of \$600,000 would leave only about \$343,312 available to assist with filling the Revenue Gap left should Jarvis-Gann be enacted.

The County has some programs in which the State and Federal Governments share the major portion of the cost. Many of these require that the County spend some local dollars in order to receive the Federal or State aid. For example in mental health, the State will grant nine dollars for every County dollar expended. If Jarvis/Gann is enacted the County may very well lose additional state and federal funds due to our inability to provide a local match.

CETA funds are based on local need but are contingent on local government maintenance of effort on positions funded from regularly available funds. In Tulare County government CETA funds have been used principally to provide desirable expansions of service. The U.S. Department of Labor representatives have indicated that should the County be forced to reduce services that CETA employment opportunities would also have to be reduced. This would have a compounding effect as many CETA employees work side by side with regular County employees.

Fire Service: Tulare County is proposing an election at the June 6 primary to allow County residents an opportunity to increase taxes in support of fire protection service. Should Jarvis/Gann be approved it appears that a favorable vote on the fire tax rate would be negated and fire service revenues would be subject to the 1% limit.

### Federal and State Taxes

A reduction of property taxes will automatically increase Federal and State income tax collections. This will result from the loss of approximately 64% of the deduction for property taxes of those persons who now itemize deductions. Individual taxpayers will experience an increased State and Federal tax burden. The dollar amount of this increased tax revenue is not known at this time.





There will also be increased available state funds formerly used to reimburse counties in revenue losses due to homeowners exemptions, business inventory exemptions and agriculture preserves.



## APPENDIX A

### METHOD OF PROPERTY TAX DETERMINATION

Under the present system of taxation governed by State laws, the Assessor locates, identifies, and appraises at current market value, locally assessable property subject to ad valorem (according to value) taxes. The State Board of Equalization appraises all properties owned by public utilities in the County and reports these values to the County for inclusion on the "secured" and "unsecured" assessment rolls. Assessed value of property is defined by State law as 25% of the market value as determined by the Assessor. Property is classified as real property, which includes land and improvements upon the land, and personal property which includes such things as boats, machinery, business inventories held for sale, etc. Secured property is property which is secured by a deed of trust or other instrument sufficient in value to recover unpaid taxes, if necessary. Unsecured property has no such security and results in a personal liability if taxes become delinquent.

The assessed value of land, improvements, and personal property as of March 1st of each year is entered on the secured assessment roll and unsecured assessment roll. This information is reported to the County Auditor and Controller who segregates the values by tax code area. Each tax code area represents an area in which all taxpayers pay property taxes at the same rate to the same local taxing jurisdictions.

At the same time the Assessor reports the values on the secured and unsecured assessment rolls to the Auditor and Controller, the assessed valuation for each taxing agency is reported to that agency.

In the meantime, each of the taxing agencies has been determining its budget requirements for the following fiscal year. Each agency follows its own method of budget formulation within the overall requirements of State law. When each agency has determined its level of property tax financing for the fiscal year, its governing body adopts a resolution which directs the County Auditor and Controller to cause to be collected those taxes. The Auditor and Controller then determines the tax rate required to be levied by each agency by dividing the tax requirement by every one hundred dollars of assessed valuation on the secured roll. All of these rates are compiled by the Auditor and Controller in the form of a resolution for adoption by the County Board of Supervisors. The resolution directs the Tax Collector to issue tax bills to the owners of real property as contained on the secured assessment roll. The tax bills include the taxes for every local agency which levies a tax on the property. Taxes are paid to the County Tax Collector generally in two installments, one in December and one in April, who deposits the tax collections with the Auditor and Controller. The Auditor and Controller then distributes the taxes to each of the taxing agencies.

Unsecured property taxes are levied at the rate of the prior year's secured property tax. These taxes are also billed and collected by the Tax Collector and deposited with the Auditor and Controller for distribution to each of the taxing jurisdictions.







# APPENDIX B

## TAXING AGENCIES IN TULARE COUNTY

<u>NUMBER</u>	<u>TYPE</u>	<u>1977-78 TAX RATE RANGE</u>
COUNTY GOVERNMENT		
1	General County Government	3.2500
1	Library	.1752
<u>1</u>	Structural Fire	.1738
3		

## NON-SCHOOL TAXING AGENCIES GOVERNED BY LOCAL BOARDS

8	Cities	1.1600 - 1.7000
13	Cemetery	0 - .1959
12	Community Services	0 - .7800
6	Fire Protection	.0379 - .5850
7	Hospital	.0792 - .7151
12	Memorial	0 - .1910
4	Mosquito Abatement	.1368 - .1996
18	Miscellaneous	0 - 1.5500
8	Public Utility	0 - 1.9446
<u>2</u>	Redevelopment Agencies	11.1159 - 11.8173
90		

## SCHOOL DISTRICTS

26	Elementary	1.8595 - 3.3308
9	High School	1.8146 - 2.5222
21	Unified	2.0739 - 5.0586
3	Community College	.6722 - .7500
<u>6</u>	Special	.0092 - .1559

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